Look ahead to profit from challenging wheat market

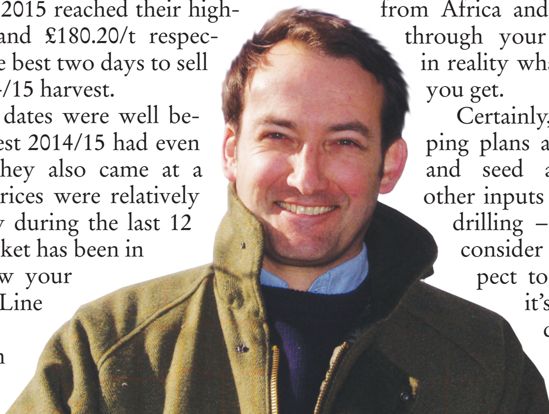
Paper-thin margins mean locking into forward wheat prices is more important than ever, says **Jeremy Cole**.

Most people remember where they were when they heard Princess Diana had died. Just like the older generation remember where they were when they heard President Kennedy had been assassinated. But what were you doing on 7 November 2012 or 18 February 2013?

The chances are most growers won't remember what happened on either date. Yet these were the days that LIFFE futures for Nov 2014 and May 2015 reached their highest values: £179/t and £180.20/t respectively. They were the best two days to sell wheat from the 2014/15 harvest.

Of course, both dates were well before wheat for harvest 2014/15 had even been drilled. But they also came at a time when wheat prices were relatively buoyant – it is only during the last 12 months that the market has been in the doldrums, below your Standard of Living Line (SOLL).

In fact, both dates came during an eight month period when growers could have secured a wheat prices of net £150/t ex-farm. Looking at them another way, they also came during a 24-month period when a net £140/t could have been secured.



These figures highlight the importance of looking forward at grain prices and deciding whether they are attractive against your individual farm SOLL. Do forward prices really matter when you're looking at them six months or even two years before the grain is actually combined?

Yes, forward prices do matter. Sure, there is a theoretical risk that a plague of wheat eating Schistocerca gregaria locusts will descend from Africa and chomp their way through your prized crop, but in reality what you drill is what you get.

Certainly, when cropping plans are being devised – and seed and fertiliser and other inputs purchased prior to drilling – most growers do consider the price they expect to achieve. After all, it's a sensible way of deciding what to grow and how much on any given acreage.

Taking harvest 2014/15 as an example, growers would have been devising their cropping plans in May-July 2013 – when the LIFFE price for Nov 2014 wheat was £155-165/t – equivalent to about £150-160/t. Yet very little wheat was sold forward at this point.

Thankfully, the market remained fairly stable until the end of March 2014. But then wheat prices nose-dived to £109.50/t on 24 September 2014 before bouncing back slightly by £20/t. But to this day they again never reached the £130+ ex-farm SOLL level required for budgets.

Selling 50% forward shouldn't really be an issue to cause sleepless nights. When your SOLL is exceeded by £10-20/t (£100-200/ha on a 10t crop), the market, your budget and your accountant should both be telling you to sell some crop and lock into a guaranteed future margin.

Yes, the market could rise. And if it does you might want to sell some more when possible. But growers who sell nothing forward should remember that it is just as big a gamble to do nothing and – as happened in this case – watch the price fall and margin disappear.

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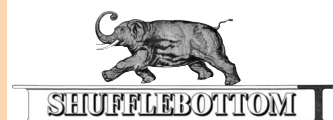

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